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December 12, 2008

Arizona Corporation Commission

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AZ CORP COMM  
Director Utilities

Kristin K. Mayes  
Commissioner  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

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MM

Re: Effect of Capital Markets on Renewable Energy Projects in Arizona  
(Per Your Letter Dated December 3, 2008) E-01345A-08-0172

Dear Commissioner Mayes:

It is well known that capital markets have severely contracted during the second half of this year, and that commercial credit of all kinds is more expensive and harder to get. Solana has an advantage in this market because it is a top-notch project with an experienced developer. It has attracted tremendous interest throughout the world and with a number of financial institutions. Indeed, despite the problems in the market, Abengoa was able to raise in recent months approximately \$300 million of project financing for projects it is developing in Europe. Abengoa has yet to seek financing for the Solana project, concentrating instead on completing the permitting process. Arizona Public Service Company ("APS" or "Company") is aware of Abengoa's priorities and is confident that there is time to obtain financing next year, when the permitting process is further along and market opportunities are hopefully improved. In fact, the agreement between APS and Abengoa anticipated financing in 2009. Obviously, the financial health of APS will be a critical element of successfully financing Solana. Project financing, both cost and availability, largely depends on the creditworthiness of the buyer, and Solana is not an exception.

APS has not "abandoned" the Joint Development Group ("JDG"). The members of that consortium decided not to accept any of the proposals offered for various reasons including costs that were not favorable to their customers. However, APS remains interested in jointly participating, through ownership or contract, in large scale solar projects in Arizona if such joint participation makes sense and is in the best interests of APS's customers. In the meantime, APS is pursuing projects on its own.

APS • APS Energy Services • SunCor • El Dorado

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For example, and in addition to the Solana project, APS has issued two additional renewable RFPs, one of which is in concluding stages. As will become even more evident once APS has submitted to the Commission its upcoming resource plan, the Company is committed to making renewable resources a centerpiece of meeting its incremental energy needs. That is why APS stays in constant contact with developers, conducts studies of renewable energy, and is active in the renewable energy community.

Finally, APS ownership of solar facilities is being seriously considered as a result of the extension of the federal tax credit for solar energy and the expansion of the eligibility for such credits to include electric utilities. However, as Mr. Post indicated during the interim rate hearing, APS cannot undertake large capital-intensive generation projects such as large-scale solar unless its financial condition improves and there is some mechanism to assure timely cost recovery of utility-owned renewable generation.

I hope this letter is responsive to your inquiries.

Sincerely,



Thomas L. Mumaw

TLM/

cc: Chairman Mike Gleason  
Commissioner William Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Gary Pierce  
Ernest Johnson  
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